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Message Text

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TO AMEMBASSY LONDON

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FOR DEPUTY ASSISTANT SECRETARY JULIUS L. KATZ

FOLLOWING REPEAT JAKARTA 13708 ACTION SECSTATE INFO
MEDAN SURABAYA DATED 10 NOV 75
QUOTE

LIMITED OFFICIAL USE JAKARTA 13708

EO 11652: N/A
TAGS: EINV EMIN ID
SUBJ: ALCOA'S INDONESIAN ALUMINUM PROJECT HALTED

1. ROBERT L BOWLBY, PRESIDENT DIRECTOR OF ALCOA MINERALS OF INDONESIA, INFORMED E/CM COUNSELOR EVENING OF NOVEMBER 7 THAT SENIOR OFFICIALS OF HIS PARENT COMPANY, ALUMINUM COMPANY OF AMERICA, INFORMED GOI MINISTER OF MINING SADLI AND DEPUTY CHAIRMAN GOI BOARD OF FOREPGN INVESTMENTS SUHUD IN NEW YORK TEN DAYS PREVIOUSLY THAT ALCOA WOULD NOT RPT NOT AT THIS TIME GO AHEAD WITH ITS PROPOSED ONE BILLION DOLLAR PLUS ALUMINA PROJECT IN WEST KALIMANTAN. BOWLBY SAID SADLI AND SUHUD WERE IN NEW YORK IN CONNECTION WITH ALI MURTOPO'S GROUP VISIT AND HE DID NOT KNOW IF MURTOPO AND OTHER SENIOR GOI OFFICILS WERE INFORMED BY SADLI AND SUHUD. FORMAL NOTIFICATION HANDED TO SADLI IN FORM OF LETTER REQUESTING THAT EXPLORATION PERIOD UNDER ALCOA'S
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CONTRACT OF WORK, WHICH RUNS OUT NOVEMBER 1976, BE

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EXTENDED TWO YEARS TO RECONSIDER ITS DECISION. HE RECOGNIZED THAT THIS MIGHT BE DIFFICULT TO DO BECAUSE EXISTING CONTRACT OF WORK MAKES NO PROVISION FOR FURTHER EXTENSION OF EXPLORATION PERIOD. BOWLBY SAID THAT AS FAR AS HE KNEW ONLY OFFICIALS ABOVE NAMED, HIS TWO SENIOR EXPATRIATES, GOI DIRGEN OF MINING KATILI (WHO HAS LACOA'S LETTER) AND NOW AMEMBASSY AWARE OF DECISION.

2. BOWLBY SAID THAT ALCOA'S DECISION TAKEN ONLY AFTER ONE YEAR OF ATTEMPTING TO FIND OTHER FOREIGN ALUMIMUM COMPANY TO PARTICIPATE IN PROJECT. HE REPORTED THAT GOI WERE PREPARED TO PARTICIPATE IN PROJECT AS TWENTY PERCENT JOINT VENTURE PARTNER BUT THAT ADDITIONAL FOREIGN CAPITAL NEEDED TO COVER CURRENT ESTIMATES OF PROJECT COSTS. HE SAID THAT EVEN IF GOI WERE TO FIND FUNDS FROM OFFICIAL FOREIGN AID DONARS TO COVER INFRASTRUCTURE COSTS THAT ADDITIONAL FOREIGN PARTICIPANTS IN ACTUAL PROJECT WOULD BE REQUIRED GIVEN CURRENT AND PROJECTED COSTS OF MONEY AND MARKETING RISK PROJECTIONS WHICH DEPENDENT UPON SOLID EVIDENCE THAT CURRENT UPTURN IN INDUSTRIALIZED COUNTRIES IS A LONG TERM TREND.

3. BOWLBY SAID THAT ALCOA DOES NOT PLAN PUBLIC ANNOUNCEMENT OF DECISION EITHER HERE OR IN US BUT WORD WOULD SPREAD WHEN ALCOA BEGINS TO ATTEMPT TO SELL ITS PHYSICAL ASSETS HERE IN INDONESIA SUCH AS HIS HOUSE, MINING EQUIPMENT, VEHICLES, BOATS, ETC. AT E/CM COUNSELOR'S ADVICE HE SAID HE WOULD URGE ALCOA HEADQUARTERS TO PREPARE PRESS GUIDANCE FOR HIM AND OTHER SPOKESMEN. BOWLBY SAID THAT BOTH SADLI AND SUHUD WERE NONCOMMITAL EXCEPT TO EXPRESS UNDERSTANDING OF THE ECONOMICS INVOLVED. HE BELIEVES HOWEVER THAT WHEN SECRETARY GENERAL SIGIT RETURNS TO INDONESIA HE WILL UNDERSTAND FULL IMPLICATIONS OF THE DECISION FOR OTHER PENDING FOREIGN INVESTOR PROJECTS IN EXTRACTIVE INDUSTRIES IN INDONESIA.BOWLBY EMPHASIZED THAT REDUCTION IN SCOPE OF PROJECT FROM SIXTEEN TO EIGHT ALUMINA TRAINS AS ORIGINALLY PLANNED WOULD NOT IMPROVE ECONOMICS OF DECISION SINCE ONLY LARGE-SCALE PROJECT COULD BE COMMERICALLY VIABLE GIVEN QUALITY OF ORE.

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4. ONE OF PROBLEMS ALCOA FACES WITH GOI IS SEPARATION OF SOME ONE HUNDRED SEVENTY INDONESIAN EMPLOYEES. FEW REMAINING EXPATRIATES HAVE ONWARD ASSIGNMENTS. BOWLBY WILL BECOME HEAD OF NEW ALCOA PROJECT IN JAPAN WHILE REMAINING AS PRESIDENT DIRECTOR OF "SHELL COMPANY" IN INDONESIA.

5. COMMENT: ALCOA DECISION COMING AT TIME WHEN GOI HAS

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UNDERTAKEN WIDESPREAD INTERNATIONAL CAMPAIGN CONCENTRATING
ON US TO COUNTER PRECIPITOUS DOWNTURN IN NEW PGIVATE
FOREIGN INVESTMENT APPLICATIONS IS SERIOUS BLOW. EVEN
THOUGH DECISION BASED ON INTERNATIONAL ECONOMIC SPTUA-
TION AND NOT SPECIFICALLY ON INDONESIAN INVESTMENT CLIMATE,
DECISION COULD SHAKE CONFIDENCE OF GAG ISLAND (PACIFIC NIKKEL)
GROUP AND COULD POSSIBLY AFFECT ASAHAN ALUMINUM PROJECT.
SOME OF THE SAME ECONOMIC FACTORS COULD ALSO AFFECT GOI'S
OWN (THROUGH STATE ENTERPRISE P T ANEKA TAMBANG)
ALUMINA PROJECT ON BINTAN ISLAND, ALTHOUGH LATTER DOES
NOT FACE SIMILARLY HEAVY INFRASTRUCTURE COSTS. EMBASSY WILL
NOT RPT NOT VOLUNTEER ANY OF ABOVE INFORMATION UNTIL SUCH
TIME AS DECISION BECOMES PUBLIC KNOWLEDGE EITHER THROUGH
GRAPEVINE OF BY PUBLIC ANNOUNCEMENT BY ALCOA OR GOI.
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